



AUDITOR - GENERAL  
SOUTH AFRICA

The Accounting Officer  
Umjindi Local Municipality  
P.O. Box 33  
Barberton  
1300

30 November 2016

Reference: 02054REG15-16

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Umjindi Local Municipality for the year ended 30 June 2016.**


1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Umjindi Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.



- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
  7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Vusi Gcaba  
Senior Manager: Mpumalanga Business Unit

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# **Auditor's report**

Umjindi Local Municipality

30 June 2016

THE  
FEDERAL  
BUREAU OF INVESTIGATION  
UNITED STATES DEPARTMENT OF JUSTICE  
WASHINGTON, D. C. 20535



# **Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Umjindi Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Umjindi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.





## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umjindi Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

## Material losses

9. As disclosed in note 49 to the financial statements, material losses of 33 075 270 units (2014-15: 29 974 490 units) were incurred as a result of electricity distribution losses, which represented 34% (2014-15: 32%) of the total electricity purchased.

## Material impairments

10. As disclosed in note 7 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R78 374 369 (2014-15: R61 326 676), which represented 63% (2014-15: 58%) of the total consumer debtors. The contribution to the provision for debt impairment was R20 380 846 (2014-15: R7 115 622).

## Events after reporting date

11. As disclosed in note 44 to the financial statements, the Mbombela Local Municipality and the Umjindi Local Municipality were disestablished and a new category B municipality, named City of Mbombela, was established, as determined by the Demarcation Board in accordance with Mpumalanga Provincial Gazette No. 2687.

The first part of the report deals with the general situation of the country. It is a very interesting and informative study of the country's development. The second part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development.

## Conclusion

The report is a very interesting and informative study of the country's development. It is a very detailed and thorough study of the country's development.

## References

1. The first reference is to the country's development. It is a very interesting and informative study of the country's development. The second reference is to the country's development. It is a very detailed and thorough study of the country's development.

2. The third reference is to the country's development. It is a very interesting and informative study of the country's development. The fourth reference is to the country's development. It is a very detailed and thorough study of the country's development.

3. The fifth reference is to the country's development. It is a very interesting and informative study of the country's development. The sixth reference is to the country's development. It is a very detailed and thorough study of the country's development.

4. The seventh reference is to the country's development. It is a very interesting and informative study of the country's development. The eighth reference is to the country's development. It is a very detailed and thorough study of the country's development.

## **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.



## Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report, compliance with legislation and internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Key performance area 1: basic service delivery and infrastructure development on pages ... to ...
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance area. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected key performance area are as follows:

### **Basic service delivery and infrastructure development**

#### Usefulness of reported performance information

19. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance and to specify the period or deadline for delivery. A total of 25% of the planned targets were not time bound.

#### Reliability of reported performance information

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

### **Additional matters**

21. I draw attention to the following matters:





## Achievement of planned targets

22. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 18 and 19 of this report.

## Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary schedules and information

24. The supplementary schedules and information set out on pages ... to ... does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and information and, accordingly, I do not report thereon.

## Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements, performance report and annual report**

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

27. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, contrary to supply chain management (SCM) regulations 29(5)(a)(ii) and 29(5)(b)(i).
28. Contracts were awarded to bidders that did not score the highest points in the evaluation process, in contravention of section 2(1)(f) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000).
29. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.



30. Goods and services with a transaction value above R200 000 were procured through multiple extensions of contracts rather than by inviting competitive bids, contrary to SCM regulation 19(a).

## **Expenditure management**

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Conditional grants**

35. The municipality did not evaluate its performance in respect of programmes funded by the municipal infrastructure grant allocation, as required by section 12(5) of DoRA.
36. The municipality did not evaluate its performance in respect of programmes funded by the municipal water infrastructure grant allocation, as required by section 12(5) of DoRA.
37. The municipality did not evaluate its performance in respect of programmes funded by the disaster relief grant allocation, as required by section 12(5) of DoRA.

## **Asset management**

38. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## **Consequence management**

39. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
40. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
41. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).

## **Internal control**

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.





## Leadership

- 43. The accounting officer did not implement adequate controls to ensure that laws and regulations were complied with, to prevent the occurrence of irregular and unauthorised expenditure. The leadership did also not ensure that investigations into irregular, unauthorised as well as fruitless and wasteful expenditure were conducted.
- 44. The leadership established a formal code of conduct that addressed appropriate ethical and moral behaviour, but staff members did not adhere to the code.

## Financial and performance management

- 45. Management at the appropriate level did not ensure that compliance with applicable laws and regulations was adequately reviewed and monitored throughout the year.
- 46. Financial information submitted with the financial statements for auditing was not adequately reviewed for accuracy and compliance with the SA Standards of GRAP.
- 47. The reported performance information in the annual performance report submitted for auditing was not adequately reviewed against supporting evidence to ensure that it was valid, accurate and complete.

Auditor - General  
Mbombela

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

